

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

*Citadel Stable S-1 Income Fund*

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# *Citadel Stable S-1 Income Fund*

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Citadel Stable S-1 Income Fund (the "Fund" or "Stable S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 15, 2005. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

During 2006, Stable S-1 paid total cash distributions of \$0.6996 per unit based on monthly distributions of \$0.0583 per unit compared to total cash distributions of \$0.5947 per unit for the period from February 15, 2005 to December 31, 2005.

## **INVESTMENT HIGHLIGHTS:**

	2006	2005
Net Asset Value per Unit <sup>(1)</sup>	\$ 8.47	\$ 9.32
Market Price per Unit <sup>(1)</sup>	\$ 7.95	\$ 8.95
Trading Premium (Discount)	(6.1%)	(4.0%)
Cash Distributions per Unit <sup>(2)</sup>	\$ 0.6996	\$ 0.5947
Trailing Yield <sup>(3)</sup>	8.8%	n/a
Market Capitalization (\$ millions)	\$ 335.0	\$ 509.1

<sup>(1)</sup> Net asset value and market price per unit are based on year end values.

<sup>(2)</sup> First monthly distribution had a record date of February 28, 2005 and was paid March 15, 2005.

<sup>(3)</sup> Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

## *Management Report of Fund Performance*

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(March 20, 2007)

This annual report for the year ended December 31, 2006 and for the period ended December 31, 2005 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Stable S-1 Income Fund (the "Fund" or "Stable S-1").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at [www.citadelfunds.com](http://www.citadelfunds.com) to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

## **INVESTMENT OBJECTIVES AND STRATEGIES**

Stable S-1's investment objectives are to provide investors with stable and sustainable monthly cash distributions and to maintain a Standard & Poor's (S&P) SR-1 stability rating. This rating signifies S&P's assessment that the Fund's trust units have the highest level of distribution sustainability and the lowest level of distribution variability in relation to other rated Canadian income funds. In order to achieve these objectives, the Fund's Investment Manager, Bloom Investment Counsel, Inc., actively manages a diversified portfolio of Canadian income funds and Canadian high yielding investment grade debt necessary to achieve and maintain a SR-1 Stability Rating.



## RISK

There are a number of risks associated with an investment in Stable S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

## RESULTS OF OPERATIONS

Stable S-1's net assets declined from \$530.4 million at December 31, 2005 to \$356.8 million at December 31, 2006 due to portfolio devaluations created by the Government's Trust Taxation Plan and the Fund's annual redemption. At the annual June redemption, unitholders exercised their right to redeem a total of 13.3 million units for a total cost of \$118.5 million or \$8.91 per unit. On a per unit basis, the Fund's net asset value ended the year at \$8.47 per unit down from \$9.32 per unit at the end of 2005.

The Fund's market price also declined, closing the year at \$7.95 per unit, down from \$8.95 per unit at the end of 2005. Stable S-1's unit price decline plus monthly cash distributions produced a negative 3.7% total return for 2006, while the Fund generated a negative 1.5% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index decreased by 2.8% over the same period.

Total revenue for 2006 was \$38.4 million compared to \$39.4 million for the period from the date of the initial public offering on February 15, 2005 to December 31, 2005. The decline in revenue was due to the reduced asset base in the latter half of 2006 as a result of the annual redemption. Administrative and investment manager fees, which are paid in units and calculated in reference to the Fund's net asset value, totaled \$5.4 million for 2006 compared to \$5.5 million in 2005. Trailer fees, which are also calculated in reference to the Fund's net asset value, were \$1.7 million in 2006, down from \$1.9 million in 2005. General and administration costs, including other expenses, rose slightly to \$0.59 million over the full year of operation compared \$0.46 million in 2005. After total expenses of \$7.6 million, the Fund generated net investment income of \$30.8 million or \$0.62 per unit for 2006 compared to \$31.6 million or \$0.55 per unit in 2005.

In order to fund its annual redemption in June and mandatory repurchases throughout the year, the Fund realized losses of \$21.0 million on the disposition of numerous investments. The Fund's portfolio also experienced unreal-

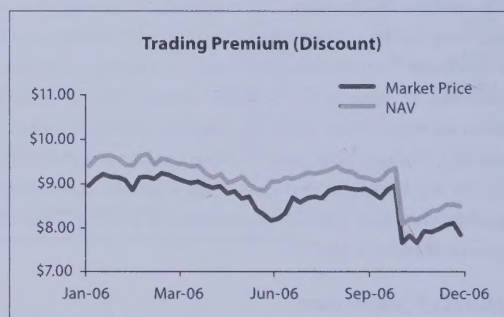
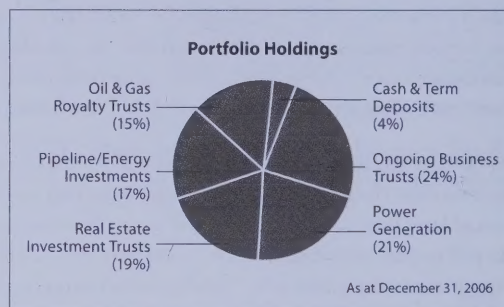
ized losses of \$19.0 million in 2006, which contributed to total results of operations of negative \$9.1 million or negative \$0.18 per unit compared to positive \$25.9 million or \$0.45 per unit for the shorter period in 2005.

During 2006, Stable S-1 paid monthly distributions of \$0.0583 per unit for a total of \$33.9 million or \$0.6996 per unit compared to \$34.1 million or \$0.5947 per unit in 2005.

The Fund's portfolio mix has remained materially consistent despite some modest changes to the asset mix during the year. Overall, the Fund enhanced its exposure to ongoing business trusts, power generation investments, real estate investment trusts and pipeline/energy investments while reducing its oil & gas royalty trust and cash positions.

#### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2006, the Fund's market price traded at an average discount to its net asset value per unit of 4.9% compared to an average discount of 1.0% in 2005. With the widening discount, the Fund repurchased 2,156,000 units at an average cost of \$8.49 in 2006 under its mandatory repurchase program compared to 1,216,100 units at an average cost of \$8.81 per unit in 2005. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding. In addition, the Fund repurchased 40,000 units at an average cost of \$8.03 per unit in 2005 under a normal course issuer bid. No units were repurchased in 2006 pursuant to this bid.



#### STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2006, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

#### RECENT DEVELOPMENTS

Throughout 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Stable S-1 expects to maintain its SR-1 stability rating and its monthly distribution rate of \$0.0583 per unit for 2007.

#### Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures



are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at that time. Stable S-1 continues to research and develop its IRC and expects to meet each implementation date requirement.

#### **New CICA Financial Instrument Standard**

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Stable S-1. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Stable S-1 intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

#### **FORWARD LOOKING STATEMENTS**

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

#### **RELATED PARTY TRANSACTIONS**

Stable Yield Management Inc. is the administrator of Stable S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

#### **FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year since inception of the Fund to December 31, 2006.

**Net Asset Value (NAV) per Unit**

	2006	2005 <sup>(1)</sup>
NAV, beginning of period	\$ 9.32	\$ 9.46
Increase (decrease) from operations:		
Total revenue	0.78	0.69
Total expenses	(0.15)	(0.14)
Realized gains (losses)	(0.42)	(0.03)
Unrealized gains (losses)	(0.38)	(0.07)
Total increase (decrease) from operations	(0.17)	0.45
Distributions:		
From net investment income	0.70	0.59
Total cash distributions	0.70	0.59
NAV, end of period	\$ 8.47	\$ 9.32

<sup>(1)</sup> The Fund commenced operations on February 15, 2005.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

**Ratios and Supplemental Data**

	2006	2005
Net assets (\$ 000's)	\$ 356,790	\$ 530,388
Number of units outstanding	42,143,765	56,885,629
Management expense ratio	1.69%	1.68%
Portfolio turnover ratio	19.91%	3.57%
Trading expense ratio	0.06%	0.14%
Closing market price	\$ 7.95	\$ 8.95

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

**MANAGEMENT FEES**

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

**PAST PERFORMANCE**

Stable S-1's performance numbers represent the annual compound total returns over the period from inception in February 2005 to December 31, 2006 (except for returns of less than one year which are compound total returns).

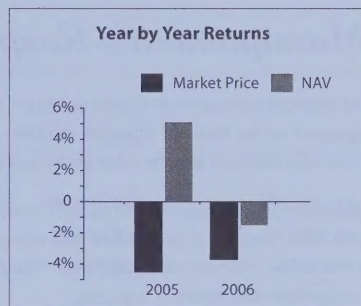


Total returns are based upon both the Fund's change in market price and net asset value plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.

#### ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Stable S-1 based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the period indicated to December 31, 2006.



	1 Year	Since Inception
Stable S-1 (market price)	(3.68%)	(4.35%)
Stable S-1 (net asset value)	(1.45%)	1.92%
S&P/TSX Capped Income Trust Index	(2.85%)	9.87%

#### SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: \$356,789,699

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	24.1%
Power Generation Investments	20.7%
Real Estate Investment Trusts	19.4%
Pipeline / Energy Investments	16.6%
Oil & Gas Royalty Trusts	14.7%
Cash and Term Deposits	4.5%
Total Net Assets	100.0%

#### TOP 25 HOLDINGS (as a % of net assets)

Atlantic Power Corporation	5.1%	Great Lakes Carbon Income Fund	2.4%
Dundee Reit	5.0%	CML Healthcare Income Fund	2.4%
Northland Power Income Fund	4.4%	Riocan Reit	2.3%
Inter Pipeline Fund	3.9%	Harvest Energy Trust	2.2%
Fort Chicago Energy Partners L.P.	3.9%	NAL Oil & Gas Trust	2.2%
Yellow Pages Income Fund	3.6%	Algonquin Power Income Fund	2.1%
TransAlta Power L.P.	3.6%	Canetic Resources Trust	2.1%
Keyera Facilities Income Fund	3.5%	Boralex Power Income Fund	2.0%
Baytex Energy Trust	3.2%	Telus Corp.	2.0%
Retirement Residences Reit	2.9%	Innergex Power Income Fund	2.0%
AltaGas Income Fund	2.8%	SunGro Horticulture Income Fund	2.0%
H&R Reit	2.5%	Energy Savings Income Fund	1.7%
Noranda Income Fund	2.5%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at [www.citadelfunds.com](http://www.citadelfunds.com).

## *Management's Responsibility Statement*

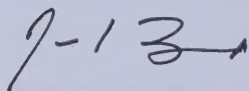
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The financial statements of Citadel Stable S-1 Income Fund have been prepared by Stable Yield Management Inc. ("SYMI") and approved by the Board of Directors of SYMI. SYMI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

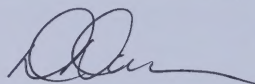
SYMI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of SYMI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of SYMI and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Stable Yield Management Inc.  
March 20, 2007



Darren K. Duncan  
Chief Financial Officer  
Stable Yield Management Inc.

## *Auditors' Report to Unitholders*

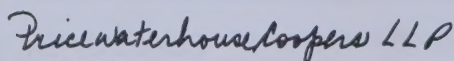
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To the Unitholders of Citadel Stable S-1 Income Fund

We have audited the statements of net assets and investments of Citadel Stable S-1 Income Fund as at December 31, 2006 and 2005, and the statements of operations and changes in net assets for the year ended December 31, 2006 and for the period from December 6, 2004, the date of inception of the Fund, to December 31, 2005. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations and the changes in its net assets for the year ended December 31, 2006 and for the period from December 6, 2004, the date of inception of the Fund, to December 31, 2005 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 20, 2007

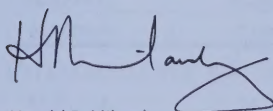


# Statement of Net Assets

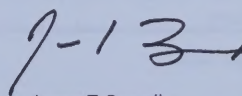
As at December 31	2006	2005
<b>Assets</b>		
Investments, at market	\$ 340,695,610	\$ 470,267,724
Cash and term deposits	15,954,814	59,950,759
Revenue receivable	2,951,306	3,817,373
Accounts receivable	222,286	174,593
Prepaid expenses	6,119	6,171
	359,830,135	534,216,620
<b>Liabilities</b>		
Accounts payable and accrued liabilities	379,296	511,970
Payable for investments purchased	204,158	—
Distributions payable	2,456,982	3,316,432
	3,040,436	3,828,402
Net Assets representing Unitholders' Equity	\$ 356,789,699	\$ 530,388,218
Units outstanding (note 3)	42,143,765	56,885,629
Net asset value per unit	\$ 8.47	\$ 9.32

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

# Statement of Operations

	Year ended December 31, 2006	For the Period from December 6, 2004 to December 31, 2005
<b>Revenue</b>		
Distribution income	\$ 35,627,527	\$ 36,768,150
Interest income	2,450,330	2,254,500
Securities lending income	350,294	374,191
	38,428,151	39,396,841
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	5,364,026	5,453,765
Trailer fee (note 5)	1,655,726	1,895,260
General and administration costs	306,518	239,694
Reporting costs	106,951	70,111
Directors' fees	72,777	72,064
Custodial fees	40,524	43,957
Audit fees	22,827	24,294
Trustee fees	20,818	4,806
Legal fees	17,766	1,842
	7,607,933	7,805,793
<b>Net investment income</b>	30,820,218	31,591,048
<b>Net realized gain (loss) on sale of investments (note 6)</b>	(20,977,612)	(1,751,219)
<b>Net change in unrealized gain (loss) on investments</b>	(18,970,457)	(3,938,900)
<b>Total results of operations</b>	\$ (9,127,851)	\$ 25,900,929
<b>Results of operations per unit<sup>(1)</sup></b>		
Net investment income	\$ 0.62	\$ 0.55
Net realized gain (loss) on sale of investments	(0.42)	(0.03)
Net change in unrealized gain (loss) on investments	(0.38)	(0.07)
	\$ (0.18)	\$ 0.45

<sup>(1)</sup> Based on the weighted average number of units outstanding.  
see accompanying notes



## Statement of Changes in Net Assets

	Year ended December 31, 2006	For the Period from December 6, 2004 to December 31, 2005
<b>Net Assets – beginning of period</b>	<b>\$ 530,388,218</b>	<b>\$ –</b>
Operations:		
Net investment income	30,820,218	31,591,048
Net realized gain (loss) on sale of investments	(20,977,612)	(1,751,219)
Net change in unrealized gain (loss) on investments	(18,970,457)	(3,938,900)
	(9,127,851)	25,900,929
Unitholder Transactions: (note 3)		
Issuance of trust units, net	6,202,595	549,653,617
Repurchase and redemption of trust units	(136,806,404)	(11,038,701)
	(130,603,809)	538,614,916
Distributions to Unitholders: (note 7)		
From net investment income	(33,866,859)	(34,127,627)
<b>Net Assets – end of year</b>	<b>\$ 356,789,699</b>	<b>\$ 530,388,218</b>
<b>Distributions per unit</b>	<b>\$ 0.6996</b>	<b>\$ 0.5947</b>

see accompanying notes

## Statement of Investments

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<b>Ongoing Business Trusts</b>								
BFI Canada Income Trust	207,100	\$ 6,019,783	\$ 5,570,990		–	\$ –	\$ –	–
Bell Aliant Regional Comm. Income Trust	200,000	6,373,580	5,392,000		–	–	–	–
Bell Nordiq Income Fund	–	–	–		234,500	3,802,154	4,174,100	
CML Healthcare Income Fund	600,000	7,887,716	8,370,000		590,000	7,740,000	8,496,000	
Chemtrade Logistics Income Fund	600,000	9,080,146	4,830,000		580,000	9,674,342	6,200,200	
Clearwater Seafoods Income Fund	–	–	–		900,000	7,628,400	3,375,000	
Custom Direct Income Fund	–	–	–		600,000	9,082,200	5,910,000	
Granby Industries Income Fund	–	–	–		510,000	6,142,338	2,983,500	
Great Lakes Carbon Income Fund	765,358	9,078,227	8,648,545		1,058,500	12,555,305	10,690,850	
KCP Income Fund	727,090	7,596,078	5,409,550		950,000	9,924,870	8,740,000	
Noranda Income Fund	907,714	12,422,066	8,940,983		1,300,000	17,790,500	15,535,000	
Prizm Canadian Income Fund	491,513	7,172,389	5,765,447		642,200	9,371,285	6,100,900	
Spinrite Income Fund	–	–	–		1,000,000	11,219,100	6,240,000	
SunGro Horticulture Income Fund	987,311	8,288,981	6,921,050		1,100,000	9,540,300	7,425,000	
Telus Corp.	137,400	8,474,441	7,148,922		–	–	–	–
Teranet Income Fund	672,700	6,899,423	5,980,303		–	–	–	–
Yellow Pages Income Fund	1,000,000	14,100,121	12,870,000		1,075,000	14,703,250	17,522,500	
		103,392,951	85,847,790	24.0%		129,174,044	103,393,050	19.5%

(continued on following page)

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
<b>Power Generation Investments</b>								
Algonquin Power Income Fund	765,358	8,057,550	7,600,005		1,045,500	11,006,834	10,925,475	
Atlantic Power Corporation	1,607,251	18,049,123	18,145,864		2,100,000	23,582,600	21,840,000	
Boralex Power Income Fund	765,358	8,974,090	7,179,058		1,000,000	11,725,350	10,020,000	
Epcor Power L.P.	210,474	7,196,948	5,630,180		231,000	7,908,142	8,142,750	
Innergex Power Income Fund	526,643	7,242,882	6,983,286		650,000	8,947,899	8,580,000	
Northland Power Income Fund	1,200,000	17,447,465	15,684,000		1,296,400	18,812,823	19,329,324	
TransAlta Power L.P.	1,698,979	16,814,375	12,691,373		1,900,000	19,681,727	18,620,000	
		83,782,433	73,913,766	20.7%		101,665,375	97,457,549	18.4%
<b>Real Estate Investment Trusts</b>								
Canadian Hotel Income Property Reit	225,000	3,011,137	3,359,250		-	-	-	
Dundee Reit	480,000	12,349,341	17,779,000		800,000	21,477,114	20,560,000	
Extendicare Reit	400,000	5,987,361	5,812,000		-	-	-	
Firm Capital Mortgage Investment Trust	535,751	6,753,141	5,598,598		700,000	8,823,500	7,546,000	
H&R Reit	375,000	7,340,608	9,033,750		425,000	8,117,500	8,840,000	
IPC U.S. Reit	474,000	5,197,078	5,877,600		-	-	-	
Innvest Reit	225,000	2,951,640	3,105,000		-	-	-	
Retirement Residences Reit	1,239,879	12,250,179	10,266,198		1,620,000	16,005,828	14,175,000	
Riocan Reit	329,104	6,077,648	8,276,966		430,000	7,940,920	9,799,700	
Summit Reit	-	-	-		1,100,000	22,006,000	27,027,000	
TGS North American Reit	-	-	-		1,000,000	9,784,393	7,930,000	
		61,918,133	69,108,362	19.4%		94,155,255	95,877,700	18.1%
<b>Oil &amp; Gas Royalty Trusts</b>								
ARC Energy Trust	89,500	2,012,139	1,995,850		-	-	-	
Acclaim Energy Trust	-	-	-		740,000	11,728,953	14,023,000	
Baytex Energy Trust	505,136	7,440,725	11,254,430		660,000	9,721,894	11,682,000	
Bonavista Energy Trust	185,000	5,358,149	5,207,750		200,000	5,806,400	7,620,000	
Canetic Resources Trust	443,908	8,108,819	7,297,848		-	-	-	
Esprit Energy Trust	-	-	-		700,000	9,026,000	9,422,000	
Harvest Energy Trust	294,663	8,396,717	7,729,010		-	-	-	
Ketch Resources Trust	-	-	-		700,000	9,821,104	7,868,000	
NAL Oil & Gas Trust	627,594	8,888,155	7,725,682		820,000	11,613,060	14,825,600	
Paramount Energy Trust	478,349	8,134,239	5,931,528		625,000	10,628,013	13,856,250	
PennWest Energy Trust	150,000	5,865,321	5,335,500		-	-	-	
Viking Energy Trust	-	-	-		1,540,000	10,970,960	14,168,000	
		54,204,263	52,477,598	14.7%		79,316,384	93,464,850	17.6%
<b>Pipeline/Energy Investments</b>								
AltaGas Income Trust	379,677	9,525,375	9,947,537		425,000	10,524,275	11,878,750	
Energy Savings Income Fund	459,215	7,168,729	6,176,442		600,000	9,366,500	11,394,000	
Fort Chicago Energy Partners L.P.	1,200,000	14,566,711	13,764,000		620,000	7,874,000	7,433,800	
Inter Pipeline Fund	1,550,000	14,422,508	14,012,000		2,000,000	18,580,580	20,100,000	
Keyera Facilities Income Fund	748,750	11,570,105	12,459,200		978,300	15,117,240	21,278,025	
Superior Plus Income Fund	260,000	2,849,600	2,784,600		340,000	8,432,970	7,990,000	
		60,103,028	59,143,779	16.6%		69,895,565	80,074,575	15.1%
Citadel Stable S-1 units – repurchased for cancellation	25,700	204,158	204,315	0.1%	-	-	-	
<b>Investments</b>		363,604,966	340,695,610	95.5%		474,206,623	470,267,724	88.7%
<b>Cash and Term Deposits</b>		15,954,814	15,954,814	4.5%		59,950,759	59,950,759	11.3%
<b>Total</b>		\$ 379,559,780	\$ 356,650,424	100.0%		\$ 534,157,382	\$ 530,218,483	100.0%

All portfolio holdings are trust units, except the following: Atlantic Power Corporation – income participating security;

Epcor Power L.P. and TransAlta Power L.P. – limited partnership units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A limited partnership units and Telus Corp. – common shares.



# Notes to Financial Statements

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December 31, 2006 and 2005

## 1. STRUCTURE OF THE FUND

Citadel Stable S-1 Income Fund (the "Fund" or "Stable S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 6, 2004. The Fund commenced operations on February 15, 2005, when it completed an issue of 57.5 million trust units at \$10.00 per unit through an initial public offering. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

### (a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders in 2006 and 2005, no provision for income taxes has been made in these financial statements.

### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Securities lending income is recognized as earned. Capital gains and losses are recognized on the trade date.

### (e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

### 3. UNITHOLDERS' CONTRIBUTION

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Issued and outstanding	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Trust units – beginning of period	56,885,629	\$ 538,614,916	–	\$ –
Issued for cash:				
Initial public offering	–	–	55,000,000	550,000,000
Over-allotment provision	–	–	2,500,000	25,000,000
Agents' fees and issue costs	–	–	–	(31,230,641)
Issued for services (note 4)	586,101	5,099,899	560,558	5,159,476
Issued under DRIP	128,441	1,102,696	81,171	724,782
Repurchase of trust units	(2,156,000)	(18,299,786)	(1,256,100)	(11,038,701)
Redemption of trust units	(13,300,406)	(118,506,618)	–	–
Trust units – end of year	42,143,765	\$ 408,011,107	56,885,629	\$ 538,614,916

The weighted average number of units outstanding for the year ended December 31, 2006 was 49,521,338 units (2005 – 57,426,808 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2006, the Fund repurchased 2,156,000 units under this program at an average cost of \$8.49 per unit (2005 – 1,216,100 units at an average cost of \$8.81 per unit).

On October 11, 2005, the Fund entered into a normal course issuer bid whereby a total of 5,727,558 units may be repurchased for cancellation over a period of twelve months. For the year ended December 31, 2006, the Fund had repurchased no units pursuant to this bid (2005 - 40,000 units at an average cost of \$8.03 per unit).

Unitholders of Stable S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2006, a total of 128,441 units were issued under the DRIP (2005 – 81,171 units).

Unitholders have the right to redeem their units on an annual basis in June of each year, commencing in June of 2006. The redemption value is net asset value less the costs of and associated with selling sufficient investments to meet the redemption amount. On June 29, 2006, a total of 13,300,406 units were redeemed for a total cost of \$118.5 million or \$8.91 per unit.

### 4. ADMINISTRATIVE AND INVESTMENT MANAGER/DIRECTORS' FEES

Stable Yield Management Inc. ("SYMI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment manager fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears. For the year ended December 31, 2006, the Fund issued 579,055 trust units and recorded an expense of \$5,364,026 in respect of the administrative and investment management fees during the year (2005 – 554,308 units and an expense of \$5,453,765). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2006, included in accounts receivable were amounts owed from SYMI of \$222,286 (2005 - \$174,593).

Directors of SYMI received a total of 7,046 trust units in February 2006 (February 2005 – 6,250 units) as payment for their annual retainers.



## 5. TRAILER FEE

Stable S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2006, the Fund recorded an expense of \$1,655,726 relating to the trailer fee (2005 - \$1,895,260).

## 6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the periods ended December 31	2006	2005
Net proceeds from the sale of securities	\$ 181,100,066	\$ 18,976,943
Less cost of securities sold:		
Investments at cost – beginning of period	474,206,623	–
Investments purchased during period	91,476,021	494,934,785
Investments at cost – end of period	(363,604,966)	(474,206,623)
Cost of investments disposed of during period	202,077,678	20,728,162
Net realized gain (loss) on sale of investments	\$ (20,977,612)	\$ (1,751,219)

## 7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses.

For the periods ended December 31,	2006	2005
Net investment income for the period	\$ 30,820,218	\$ 31,591,048
Add fees paid by issuance of units	5,099,899	5,154,268
Capital distributed (cash flow retained)	(2,053,258)	(2,617,689)
Cash distributions	\$ 33,866,859	\$ 34,127,627
Cash distributions per unit	\$ 0.6996	\$ 0.5947

## 8. SECURITIES LENDING

The Fund engaged in securities lending during both 2006 and 2005. At December 31, 2006, the Fund had lent out \$36.0 million of its portfolio securities with \$38.7 million of collateral in primarily federal and provincial bonds (2005 - \$126.3 million with collateral of \$134.3 million).

## 9. BROKER COMMISSIONS

For the year ended December 31, 2006, the Fund paid commissions to brokers of \$262,731 (2005 - \$650,792) and they are recorded in the purchase and sale of investments.









# Corporate Information

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## Administrators

Citadel Diversified Management Ltd.  
Citadel S1 Management Ltd.  
Citadel TEF Management Ltd.  
Citadel CPRT Management Ltd.  
Citadel Series Management Ltd.  
Equity Lift Management Ltd.  
N.A. Energy Management Inc.  
Stable Yield Management Inc.  
Sustainable PE Management Inc.  
Equal Weight Management Ltd.  
CGF Funds Management Ltd.  
CGF Resource FT Funds Management Ltd.  
Suite 3500, 350 - 7th Avenue S.W.  
Calgary, Alberta T2P 3N9  
Telephone: (403) 261-9674  
Toll Free: 1 877 261-9674  
Fax: (403) 261-8670  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

## Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un,  
SRC.un and CSR.un)  
Bloom Investment Counsel, Inc.  
Suite 1710, 150 York Street  
Toronto, Ontario M5H 3S5

## Investment Manager

(EPF.un, SPU.un and CGF Resource 2006)  
Galileo Equity Management Inc.  
161 Bay Street, Suite 4730  
Toronto, Ontario M5J 2S1

## Investment Manager

(CPF.un)  
Fiera YMG Capital Inc.  
1501 McGill College Avenue, Suite 900  
Montreal, Quebec H3A 3M8

## Rebalancing Advisor

(IEP.un, EQW.un and FPR.pr.a)  
Shaunessy Investment Counsel Inc.  
Suite 504, 933-17th Avenue S.W.  
Calgary, Alberta T2T 5R6

## Directors and Officers

Harold P. Milavsky - Chairman of the Board  
Micheline Bouchard - Director  
Doug D. Baldwin - Director  
Kent J. MacIntyre - Director  
James T. Bruvall - Director and Chief Executive Officer  
Darren K. Duncan - Chief Financial Officer

## Trustee

Computershare Trust Company of Canada  
Sixth Floor  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

## Custodian

CIBC Mellon Global Securities Services Company  
320 Bay Street, 6th Floor  
Toronto, Ontario M5H 4A6

## Legal Counsel

Stikeman Elliott LLP  
4300 Bankers Hall West  
888 - 3rd Street S.W.  
Calgary, Alberta T2P 5C5

## Auditors

PricewaterhouseCoopers LLP  
3100, 111 - 5th Avenue S.W.  
Calgary, Alberta T2P 5L3

## Stock Exchange Listings

The Toronto Stock Exchange  
Citadel Diversified Investment Trust units: **CTD.un**  
Citadel S-1 Income Trust Fund units: **SDL.un**  
Citadel HYTES Fund units: **CHF.un**  
Citadel SMaRT Fund units: **CRT.un**  
Citadel Premium Income Fund units: **CPF.un**  
Series S-1 Income Fund units: **SRC.un**  
Income & Equity Index Participation Fund units: **IEP.un**  
Energy Plus Income Trust units: **EPF.un**  
Citadel Stable S-1 Income Fund units: **CSR.un**  
Sustainable Production Energy Trust units: **SPU.un**  
Equal Weight Plus Fund units: **EQW.un**  
Financial Preferred Securities Corporation shares: **FPR.pr.a**  
CGF Resource 2006 Flow-Through Limited Partnership units: not listed





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